

Message Text

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PAGE 01 OSLO 01732 101515Z
ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 COME-00 TRSE-00 OMB-01 CEA-01
AID-05 CIAE-00 INR-10 NSAE-00 AGRE-00 SIL-01
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TO SECSTATE WASHDC PRIORITY 5607
INFO AMEMBASSY COPENHAGEN
AMEMBASSY PARIS
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PARIS ALSO FOR USOEDC

E.O. 11652: GDS
TAGS: EFIN, EGEN, NO
SUBJECT: AUSTERITY MEASURES/WAGE SETTLEMENT: ASPIRIN FOR GANG-
RENE?

1. THE GON'S PROGRAM TO HOLD DOWN INCREASES IN PER UNIT COSTS
IN NORWEGIAN INDUSTRY AND THUS BEGIN TO RE-ESTABLISH NORWAY'S
COMPETITIVE POSITION INTERNATIONALLY IS UNDERWAY ON THREE FRONTS.
WAGE NEGOTIATIONS AIMED AT HOLDING REAL GROWTH IN WAGES AT CLOSE
TO ZERO OVER THE NEXT YEAR HAVE BEEN IN PROGRESS FOR NEARLY A
MONTH AND NOW LOOK TO BE CONCLUDED SHORTLY. DOWNWARD REVISIONS
IN NORWAY'S LONG TERM PROGRAM OBJECTIVES FOR INCOME GROWTH AND
FURTHER AUSTERITY MEASURES WRITTEN INTO A REVISED NATIONAL BUDGET
FOR 1978 ARE EXPECTED IN ABOUT TWO WEEKS AS WELL.

2. HOWEVER, IT IS BEGINNING TO LOOK AS THOUGH THE GON MAY BE
BACKING AWAY TO SOME EXTENT FROM THE STRICT MEASURES IT HAS CLAIMED
AS NECESSARY. THE GON'S ASSESSMENT OF THE ECONOMIC SITUATION AND
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PAGE 02 OSLO 01732 101515Z

NEEDED REMEDIAL MEASURES, AS WE HAVE REPORTED, IMPLIES AN INCREASE
IN UNEMPLOYMENT IN 1978 AND 1979. BOTH FOR THIS REASON, AND BECAUSE
THE LONG TERM PROGRAM IN PARTICULAR HAS BEEN INTERPRETED BY
WAGE EARNERS AT THE LOWER LEVELS, FARMERS, FISHERMEN AND
PENSIONERS AS A COMMITMENT BY THE GON TO PROVIDE SUBSTANTIALLY
HIGHER REAL INCOMES EVERY YEAR, THE GOVERNMENTS' POSITION
HAS BEEN SUBJECTED TO INCREASING--AND REPORTEDLY TELLING--

CRITICISM OF LATE.

3. AS A RESULT, THE OUTCOME OF THE WAGE TALKS PLUS NEW AUSTERITY MEASURES NOW SEEM AS MOST LIKELY HAS BEEN CHARACTERIZED IN ONE PRESS REPORT AS THE EQUIVALENT OF QUOTE ASPIRIN FOR GANGERENE. UNQUOTE THIS IS COLORFUL BUT OVERLY PESSIMISTIC. IT DOES SEEM PROBABLE, HOWEVER, THAT THE INCOME SETTLEMENT FOR FARMERS AND LOWER PAID WORKERS WILL BE MORE GENEROUS THAN THE GON SAID IT WOULD PERMIT (PARTLY BECAUSE OF NEW TAX CUTS, DESPITE THE DECISION LAST FALL TO RESIST FURTHER TAX REDUCTIONS) AND THERE MAY BE SOME REAL GROWTH IN INCOME FOR HIGHER PAID WORKERS, TOO. EVEN MORE IMPORTANT, STATE ASSISTANCE TO UNCOMPETITIVE FIRMS IS LARGELY BEING CONTINUED, WHICH AMONG OTHER THINGS DOES NOT LOOK WELL FOR THE PROSPECTS FOR CONTROLLING WAGE DRIFT. OUR CONTACTS IN THE CONCERNED MINISTRIES TELL US THAT THE SPECIFIC MEASURES LIKELY TO BE ANNOUNCED IN THE NEXT WEEK OR TWO WILL INCLUDE AN INCOME TAX DECREASE (GREATER PERCENTAGE DECREASE FOR THE LOWEST PAID) AND SOME FORM OF INCREASED INCOME FOR THE ELDERLY. AT THE SAME TIME, POSTPONEMENT OF CERTAIN EXPENSIVE SOCIAL REFORMS, INCLUDING THE INCREASED SICK PAY BENEFITS SCHEDULED FOR IMPLEMENTATION THIS SUMMER, IS ALSO LIKELY.

4. NORGES BANK DEPUTY DIRECTOR HERMOD SKAANLAND RECENTLY CALLED PUBLICLY FOR A HALVING OF EMPLOYMENT MAINTAINING SUBSIDIES, A HALVING OF THE EXPECTED NINE BILLION KRONER
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PAGE 03 OSLO 01732 101515Z

DEFICIT IN GOVERNMENT SPENDING THIS YEAR, AND AN INCREASE IN THE VAT BY TWO PERCENT. SKAANLAND SAID THAT HE RECOGNIZED THE PUBLIC UNPOPULARITY OF SUCH BELT-TIGHTENING MEASURES BUT SAID QUOTE WE CAN TO SOME EXTENT CHOOSE WHEN TO TAKE RESTRICTIVE MEASURES, WE CANNOT CHOOSE WHETHER WE SHALL DO SO. UNQUOTE HE ALSO DESCRIBED DECISION MAKING IN NORWAY AS QUOTE PETRIFIED UNQUOTE AND SAID THAT THERE WAS LITTLE PROSPECT OF MEASURES ON THE NECESSARY SCALE BEING ADOPTED.

5. COMMENT: DESPITE THE SCEPTICISM OF SKAALAND AND OTHERS THERE IS STILL A CONSENSUS HERE IN BOTH GOVERNMENT AND BUSINESS CIRCLES THAT THE WAGE SETTLEMENT/AUSTERITY MEASURES WILL BE SUFFICIENTLY RESTRICTIVE TO SLOW SOMEWHAT THE RATE AT WHICH COSTS HAVE BEEN INCREASING. HOWEVER, WHETHER COST INCREASES CAN BE SLOWED UP DECISIVELY, WITH HOPE FOR AN EARLY END TO NORWAY'S FAST GROWING DEBT AND ERODING SHARE OF FOREIGN MARKETS, WILL BECOME CLEARER ONLY WHEN WE SEE THE FINAL RESULTS OF THE WAGE SETTLEMENT AND THE ECONOMIC PROGRAM REVISIONS. AT THAT TIME WE WILL COMMENT FURTHER ON THE LIKLIHOOD OF NORWAY'S FUTURE PETROLEUM REVENUES BEING SPENT ON INVESTMENT RATHER THAN TO MAINTAIN A HIGH LEVEL OF DOMESTIC CONSUMPTION.
LERNER

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